

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS

SUPERIOR COURT

99-E-0410

IN THE MATTER OF THE LIQUIDATION OF
TUFTS HEALTH PLAN OF NEW ENGLAND, INC.

LIQUIDATOR'S FIRST INTERIM STATUS REPORT

Paula T. Rogers, Commissioner of Insurance of the State of New Hampshire and the duly appointed Liquidator of Tufts Health Plan of New England, Inc. in the above-captioned liquidation proceeding, for her First Interim Status Report for the period ending April 30, 2000, states as follows:

1. Tufts Health Plan of New England ("TNE") was incorporated on or about January 31, 1995 as a health maintenance organization ("HMO") by certain parent and affiliate organizations: Tufts Health Plans, Inc., Tufts Affiliated Health Maintenance Organization, Inc., and TAHMO Holdings, Inc. These parent and affiliate organizations are collectively referred to in this Interim Report as "TAHMO."
2. TNE was issued a Certificate of Authority ("COA") by the New Hampshire Insurance Department ("the Department") on June 1, 1995. Under the terms of the COA, TNE marketed HMO health coverage to groups and individuals employed in both public and private sectors.
3. TNE was also licensed to offer coverage in Rhode Island and Maine by the respective state departments of insurance, and placed certain funds on deposit in each state.
4. TNE marketed a variety of products in the three states (New Hampshire, Maine and Rhode Island) and marketed most of its health coverage through licensed

brokers or agents. In the period immediately preceding November 1999, TNE reported a total of approximately 150,000 members or insured individuals. A summary of products offered by TNE in each state is included in the Interim Report as Table I.

5. From inception through November 1999, TNE incurred substantial operating deficits. TAHMO reported providing TNE with regular capital infusions during this period so that TNE's reported statutory net worth appeared to meet the Department's requirements. However, on November 18, 1999, TAHMO's board of directors decided to discontinue TAHMO's subsidization of TNE, due to TNE's increasing operating deficits, and so informed the Department. In response, on November 22, 1999, New Hampshire Insurance Commissioner Paula T. Rogers filed in the Superior Court of Merrimack County a Petition for Rehabilitation of TNE, and was appointed as TNE's Rehabilitator by an Order of Rehabilitation entered that same day. Key points in the Order of Rehabilitation were summarized in the Rehabilitator's press release issued on November 22, 1999 and in an "Open Letter" distributed on December 2, 1999.

6. Within the Rehabilitation process, the Rehabilitator appointed a special deputy rehabilitator, Charles Schneider of the Concordant Group LLC, to determine whether other carriers had a desire to assume all or a portion of TNE's business. The Rehabilitator also announced that in New Hampshire other carriers would be urged to write TNE accounts if and when they became available.

7. The Rehabilitator communicated various information regarding the status of TNE and the Rehabilitation process through various media, including press releases and press conferences, interviews, "Open Letters" and the Department's web page: www.state.nh.us/insurance.

8. On December 3, 1999, Bath Iron Works Corporation, (“BIW”), a Maine corporation, asserted certain claims and causes of action totaling \$40 million in a Complaint filed against TNE and certain entities related to TNE in the Superior Court for Cumberland County, Maine, which was later removed to the United States District Court for the District of Maine. In response, the Rehabilitator asserted the sole and exclusive right to prosecute the “related party liability” claims asserted by BIW, and reserved her rights to move to dismiss the BIW proceeding upon further investigation of the underlying claims raised therein.¹

9. In a widely distributed and published December 20, 1999 “Open Letter”, the Rehabilitator announced that a buyer for TNE had failed to emerge during the Rehabilitation process; that the provider networks caring for TNE members had begun to deteriorate, and that TNE’s financial condition had eroded further. In light of those circumstances and events, on December 20, 1999, the Rehabilitator petitioned the Merrimack County Superior Court to issue an Order of Liquidation effective January 3, 2000.

10. After the filing of the Petition for Liquidation, the Rehabilitator and her counsel engaged The Pace Group to assist her in the anticipated liquidation of TNE.

¹ The BIW proceeding is further discussed in paragraphs 12, 25 and 26 below.

Duties of The Pace Group include the overall supervision of TNE operations under the direction of the Liquidator, with regular reporting to the Liquidator. Specifically, The Pace Group has focused on four major objectives: migrating the members to replacement, solvent health plans; marshaling the assets of the liquidating estate; designing and implementing the proof of claim process, and supervising the wind-down of the TNE operations.

11. The Order of Liquidation entered on January 3, 2000. Among its provisions, it: (1) found sufficient cause existed for the liquidation of TNE; (2) appointed the Rehabilitator as Liquidator (“the Liquidator”) of TNE; (3) abated all actions and proceedings against TNE; (4) directed the continuation of coverage under policies and contracts issued by TNE for a period of 30 days from the date of entry of the Order; (5) approved the Liquidator’s recommendation that contracted provider claims for services rendered between December 20, 1999 and February 2, 2000 be deemed costs of administration; (6) directed the Liquidator to file financial reports within one year and at least annually thereafter; and (7) continued in full force and effect the injunctive provisions of the Order of Rehabilitation.

12. The Order of Liquidation also required the Liquidator to elect, on or before March 31, 2000, whether to commence an action in the liquidation proceeding asserting the “related party liability” claims asserted by BIW. Pursuant to the Order of Liquidation, if the Liquidator elected by March 31, 2000 not to prosecute the “related party liability” claims asserted in Maine by BIW, BIW would be free to continue to pursue those claims in Maine or any other jurisdiction.

13. At or about the same time, the Superior Court for Providence County, Rhode Island appointed an Ancillary Receiver to take possession of funds, totaling \$1,580,000, previously placed on deposit in Rhode Island when TNE was licensed to offer coverage in Rhode Island. The Liquidator sought to submit all claims from Rhode Island claimants to the Ancillary Receiver for payment from these Special Deposits. The Ancillary Receiver argued that Rhode Island claimants should not be disadvantaged by the fact that Rhode Island had the foresight to require TNE to make Special Deposits. The Court agreed with the Ancillary Receiver's position and indicated that Rhode Island claimants should not be denied access to the general assets of the liquidation estate. The funds continue to be on deposit in Rhode Island, and both the Liquidator and the Ancillary Receiver are gathering information to determine the extent of the Rhode Island claimant liabilities and how to best proceed.

14. During the week beginning Monday, January 10, 2000, the Liquidator issued formal notices of liquidation, via first class mail, to all TNE subscribers, policyholders, providers and agents. The Liquidator also issued a press release announcing the issuance of such letters, and placed copies of samples of each letter type on the Department's web page. Mailings, using a format approved by the United States Department of Health and Human Services Health Care Financing Administration's Center for Health Plan and Providers, were sent to Secure Horizons (Medicare) members on January 12. Mailings were sent to commercial, non-Secure Horizons members and providers on January 13 and 14.

15. The Liquidator's written notice to all TNE subscribers contained important information in a question-and-answer format including, but not limited to, the following: an

explicit statement of subscribers' need to obtain replacement coverage prior to February 3, 2000 (prior to February 1 for Secure Horizons members); phone numbers in each state to use in reaching their respective insurance department; notice of protection, both state and federal, against pre-existing condition exclusions; notice of prohibitions against balance billing of subscribers; and a summary description of the Proof of Claim ("POC") process to come.

16. Within the text of the January 11, 2000 press release, the Liquidator also described the necessity of implementing certain program changes in TNE's claims processing systems. These program changes were required to implement the Order of Liquidation provision calling for network provider claims for services delivered to TNE members between December 20, 1999 and February 2, 2000 to be deemed costs of administration. The necessity of making such program changes delayed TNE claims payments until mid-January. Between December 20, 1999 and April 30, 2000, the Liquidator paid approximately \$29.5 million in costs of administering the liquidating estate (Class I claimants), of which approximately \$21.3 million was paid to contracted providers for delivery of post-petition medical services and products to TNEinsured individuals.

17. Between December 20, 1999 and April 30, 2000, the Liquidator has continued to use existing TNE and TAHMO claims payment systems to adjudicate all provider claims and to pay Class I, contracted provider claims.

18. Recognizing the high cost of continuing to use the expensive TAHMO claims payment systems, the Liquidator has interviewed several lower cost third-party-

administrators (“TPAs”) and is negotiating a replacement agreement with one of them. Those negotiations are not yet complete.

19. The Liquidator also encountered a need for program changes in billing subscribers for coverage through February 2, 2000. The Liquidator determined that neither sufficient time nor sufficient resources were available to bill subscribers for the partial coverage periods produced by the February 2 cutoff date. Given resource limitations, the Liquidator elected to bill subscribers for the complete month of coverage which included February 2, 2000, and determined to seek Class I status for those unearned premium claims generated solely by reason of the Liquidator’s invoicing subscribers for a period beyond February 2 in order to obtain coverage through February 2. The amount of such unearned premium claims is estimated to be no more than \$256,000, and their payment as Class I costs will likely have minimal adverse impact on other claimants with policy-related claims. The court granted the Liquidator’s motion for authority to treat those unearned premium claims as Class I costs of administration on April 24, 2000. The Liquidator has undertaken to commence making those unearned premium claims payments.

20. The Liquidator arranged for Anthem Blue Cross Blue Shield of New Hampshire (“Anthem BCBS”) to assume TNE’s role in administering the POS and Preferred Provider Organization (“PPO”) coverage insured through Allianz for insured individuals in New Hampshire. Premium rates were not affected by this transition, and arrangements were made to offer employer groups a full portfolio of Anthem BCBS products at their next renewal. This transition was announced by the Liquidator in a January 18, 2000 press release coordinated with materials placed on the Department’s web page.

21. The Liquidator announced that the process for filing claims against TNE, the Proof of Claim (POC) process, could begin the week of March 6, 2000 when POC notices would be mailed to potential claimants. This announcement was contained in the Department's February 22, 2000 press release. The POC process was described as a process that would "identify, classify and verify all claims against the liquidating estate in accordance with New Hampshire law." POC claim forms were sent to any provider, member, employer, broker, state or local governmental entity or any other general creditor who did business with TNE during 1999. In addition to the press release, the Liquidator placed on the Department's web page copies of (1) the transmittal letter regarding proof of claim, and (2) the proof of claim form.

22. During the week of March 6, 2000, the Liquidator mailed approximately 160,000 POC claim forms and transmittal letters to subscribers, policyholders, providers, brokers, and general or trade creditors of TNE.

23. The Liquidator held an open meeting to explain the POC process and answer questions on Wednesday, March 8, 2000 in Portsmouth, NH. Notice of the meeting time and location was included in the Department's February 22, 2000 press release. The Liquidator placed all materials presented at the March 8 meeting on the Department's web page. The Liquidator announced the successful migration of most former TNE members into other, solvent health insurers and HMOs by February 2, 2000. Certain TNE members apparently did not obtain replacement coverage due to cost or other personal considerations.

24. On March 13, a hearing was held in Merrimack County Superior Court regarding the Liquidator's Motion to Compel Access to and Production of Documents and

Information relating to the business and operations of TNE in the possession and control of TAHMO. The requested information was absolutely necessary for the prompt, efficient and cost-effective liquidation of the estate of TNE. The Liquidator made the motion due to TAHMO's repeated obstruction and non-cooperation, which had rendered repeated and costly attempts to resolve the dispute over the ownership, control and production of TNE and TNE-related data futile. On March 14, 2000, the Court ordered TAHMO and all of its officers, directors, employees and agents to promptly and fully cooperate with each and every request for information concerning TNE made by the Liquidator or her representatives.

25. On March 31, 2000, the Liquidator filed a Complaint in Merrimack County Superior Court against TNE, the parent and affiliated entities of TNE and their boards of directors, seeking legal and equitable relief against the defendants arising out of the liquidation of TNE. The Complaint alleges, among other things, that TNE, its parent and affiliated entities and their boards of directors directed the activities of the corporate defendants to the substantial detriment and damage of TNE as a going concern, the estate of TNE, and its creditors, policyholders and members. The alleged actions causing damage include negligence, gross negligence, breach of contract, breach of fiduciary duty, misrepresentation and unfair trade practices.

26. Upon filing her Complaint, the Liquidator filed a motion in the United States District Court in Maine, requesting that the BIW proceeding pending there be dismissed or stayed. Her motion was granted on April 17, 2000, resulting in an order entered the following day dismissing the BIW proceeding without prejudice.

27. The Liquidator scheduled an open meeting to explain the POC process and answer questions on Tuesday, April 11, 2000 in Portland, ME. Notice of the meeting time

and location was included in the Maine Insurance Bureau's web page. All materials presented at the April 11 meeting are posted on the Department's web page.

28. The Liquidator continues to identify and pursue conversion of TNE assets or claims by the TNE estate into cash. The Liquidator intends to retain a forensic accountant to examine TNE records and identify additional potential claims by the TNE estate.

29. As of April 30, 2000, the Liquidator received nearly 2000 POC forms from a variety of claimants. The Liquidator is currently engaged in classifying the POC filings as to claimant class, and verifying the amounts submitted.

30. The Liquidator plans to continue regular communication with all TNE subscribers, policyholders, providers, brokers or agents, general creditors and other claimants and interested parties. Media to be used in such communication will include, but not be limited to, public meetings, the Department's web page, written correspondence, and press releases.

Respectfully submitted,

Dated: May __, 2000

PAULA T. ROGERS, COMMISSIONER
OF INSURANCE OF THE STATE OF
NEW HAMPSHIRE

By her attorneys,

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Tufts Health Plan of New England in Liquidation
First Interim Report on Status of Liquidation
April 1, 2000

TABLE I					
	Product Marketed in State? (Yes/No)				
Description of Products offered by TNE		New Hampshire	Maine	Rhode Island	
Commercial HMO coverage for Employer Groups and Individuals		yes	yes	yes	
Medicaid coverage for eligible individuals (terminated December 31, 1999)		yes	no	no	
TNE insured Point of Service (POS) coverage for Employer Groups		no	yes	no	
Administrative Services for Self Insured Employer Group Plans (ERISA) using both POS and Preferred Provider Organization (PPO) benefit models		yes	yes	no	
Administrative Services for Allianz Life Insurance Company insured POS and PPO coverage for Employer Groups		yes	yes	yes	
Coverage for eligible individuals under a Medicare Choices contract (Medicare Replacement) with HCFA; brand name Secure Horizons		yes	no	yes	

CERTIFICATE OF SERVICE

I hereby certify that on this 19th day of May, 2000, a copy of the foregoing Liquidator's First Interim Status Report, was served upon the parties listed on the attached service list via first class mail, postage prepaid.

Bruce A. Harwood